Bourse de Montréal Inc.

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CIRCULAR
February 24, 2005

CAPITAL REQUIREMENTS FOR UNDERWRITING COMMITMENTS
AMENDMENTS TO ARTICLE 7224 OF THE RULES AND TO
SCHEDULE 2A OF POLICY C-3

On November 15, 2004, Bourse de Montréal Inc. (the Bourse) issued circular no. 148-04 in which the Bourse informed its approved participants of the approval by the Rules and Policies Committee of amendments to article 7224 and to Schedule 2A of Policy C-3 of the Rules and Policies of the Bourse, which deal with capital requirements for underwriting commitments. As specified in this circular, these amendments become effective on March 1, 2005.

Circular no. 148-04 contained a detailed analysis of the amendments adopted and a specimen of the standard new issue loan agreement to be completed starting March 1, 2005 in order to be entitled to the capital requirements reductions provided for in amended article 7224. Approved participants are invited to consult as needed this circular on the Bourse's website at http://www.m-x.ca/f_circulaires_en/148_en.pdf.

For further information, please contact Jacques Tanguay, Vice-President, Regulatory Division, at (514) 871-3518 or by e-mail at jtanguay@m-x.ca.

Joëlle Saint-Arnault
Vice-President, Legal Affairs and Secretary

Encl.

Circular no.: 031-2005
Amendment no.: 003-2005

7224 Margin Requirements for Underwriting Commitments
(01.06.88, 19.08.93, **01.03.05**)

a) In the present article, the expression:

i) "appropriate documentation" with respect to the portion of the underwriting commitment where expressions of interest have been received from exempt purchasers means, at a minimum:

A) that the lead manager has a record of the final affirmed exempt purchaser allocation indicating for each expression of interest:

I) the name of the exempt purchaser;

II) the name of the employee of the exempt purchaser accepting the amount allocated;

III) the name of the representative of the lead underwriter responsible for affirming the amount allocated to the exempt purchaser; and

IV) the date and time of the affirmation,

and

B) that the lead manager has notified in writing all the banking group participants when the entire allotment to exempt purchasers has been affirmed pursuant to paragraph A) above so that all banking group participants may take advantage of the reduction in the capital requirement.

Under no circumstances may the lead manager reduce its own capital requirement on an underwriting commitment due to such expressions of interest from exempt purchasers without providing notification to the rest of the banking group.

ii) a "commitment" pursuant to an underwriting agreement or banking group agreement to purchase a new issue of securities or a secondary issue of securities means, where all other non-pricing agreement terms have been agreed to, where two of the following three pricing terms have been agreed to:

A) issue price;

B) number of shares;

C) commitment amount [issue price x number of shares].

iii) "disaster out clause" means a provision in an underwriting agreement substantially in the following form:

"The obligations of the underwriter (or any of them) to purchase the securities under this agreement may be terminated by the underwriter (or any of them) at its option by written notice to that effect to the issuer at any time prior to the closing if there should develop, occur or come into effect or existence any event, action, state, condition or major financial occurrence of national or international consequence or any law or regulation which, in the opinion of the underwriter, seriously affects adversely, or involves, or will seriously affect adversely, or involve, the financial markets or the business, operations or affairs of the issuer and its subsidiaries taken as a whole".

iv) "exempt purchasers" means all persons with whom the issuer could, pursuant to applicable securities laws, proceed with the sales of securities without having the obligation to produce a prospectus if such sales were made exclusively to these persons.

v) "market out clause" means a provision in an underwriting agreement which permits an underwriter to terminate its commitment to purchase in the event of unsaleability due to market conditions, substantially in the following form:

"If, after the date hereof and prior to the time of closing, the state of financial markets in Canada or elsewhere where it is planned to market the securities is such that, in the reasonable opinion of the underwriters (or any of them), the securities cannot be marketed profitably, any underwriter must be entitled, at its option, to terminate its obligations under this agreement by notice to that effect given to the issuer at or prior to the time of closing".

vi) "new issue letter" means an underwriting loan facility in a form satisfactory to the Bourse. Where the provider of the new issue letter is other than an acceptable institution, the funds that can be drawn pursuant to the letter must either be fully collateralized by high-grade securities or held in escrow with an acceptable institution.

Under the terms of the new issue letter, the letter issuer must:

A) provide an irrevocable commitment to advance funds based only on the strength of the new issue and the approved participant;

B) advance funds to the approved participant for any portion of the commitment not sold:

I) for an amount based on a stated loan value rate;

II) at a stated interest rate; and

III) for a stated period of time,

and

C) under no circumstances, in the event that the approved participant is unable to repay the loan at the termination date, resulting in a loss or potential loss to the letter issuer, have or seek any right of set-off against:

I) collateral held by the letter issuer for any other obligations of the approved participant or the approved participant's clients;

II) cash on deposit with the letter issuer for any purpose whatsoever; or

III) securities or other assets held in a custodial capacity by the letter issuer for the approved participant either for its own account or for the approved participant's clients,

in order to recover the loss or potential loss.

vii) "normal margin" means margin otherwise required by the Rules.

viii) "normal new issue margin" means:

A) where the market value of the security is $2.00 per share or more and the security qualifies for a reduced margin rate pursuant to paragraph 3 of article 7213, 60% of normal margin for the period from the date of commitment to the business day prior to settlement date and 100% of normal margin from settlement date on; or

B) where the market value of the security is $2.00 per share or more and the security does not qualify for a reduced margin rate pursuant to paragraph 3 or article 7213, 80% of normal margin for the period from the date of commitment to the business day prior to settlement date and 100% of normal margin from settlement date on; or

C) where the market value of the security is less than $2.00 per share, 100% of normal margin.

b) Where an approved participant has a commitment pursuant to an underwriting agreement or banking group agreement to purchase a new issue of securities or a secondary issue of securities, the following margin rates are prescribed:

i) without new issue letter:

A) in the case where the underwriting agreement includes neither a disaster out clause nor a market out clause:

normal new issue margin from the date of commitment;

B) in the case where the underwriting agreement includes a disaster out clause:

50% of normal new issue margin from the date of the commitment until settlement date or the expiry of the disaster out clause, whichever is earlier. Thereafter margin as required in A) above applies;

C) in the case where the underwriting agreement includes a market out clause:

10% of normal new issue margin from the date of commitment until settlement date or the expiry of the market out clause, whichever is earlier. Thereafter margin as required in A) above applies;

D) in the case where the underwriting agreement includes a disaster out clause and a market out clause:

10% of normal new issue margin from the date of commitment until settlement date or the expiry of the market out clause, whichever is earlier. Thereafter margin as required in A), B) and C) above applies.

ii) with new issue letter:

A) in the case where the underwriting agreement includes neither a disaster out clause nor a market out clause:

10% of normal new issue margin from the date of the letter to the business day prior to settlement date or when the new issue letter expires, whichever is earlier;

10% of normal new issue margin from settlement date to 5 business days after settlement date or when the new issue letter expires, whichever is earlier, where the new issue letter has been drawn;

25% of normal new issue margin for the next succeeding 5 business days or when the new issue letter expires, whichever is earlier, where the new issue letter has been drawn;

50% of normal new issue margin for the next succeeding 5 business days or when the new issue letter expires, whichever is earlier, where the new issue letter has been drawn;

75% of normal new issue margin for the next succeeding 5 business days or when the new issue letter expires, whichever is earlier, where the new issue letter has been drawn;

otherwise, the normal new issue margin is required;

B) in the case where the underwriting agreement includes a disaster out clause:

10% of normal new issue margin from the date of the commitment until the settlement date or the expiry of the disaster out clause, whichever is earlier. Thereafter margin as required in A) above applies;

C) in the case where the underwriting agreement includes a market out clause:

5% of normal new issue margin from the date of commitment until the settlement date or the expiry of the market out clause, whichever is earlier. Thereafter margin as required in A) above applies;

D) in the case where the underwriting agreement includes a disaster out clause and a market out clause:

5% of normal new issue margin from the date of commitment until the settlement date or the expiry of the market out clause, whichever is earlier. Thereafter margin as required in A), B) and C) above applies.

If the margin rates prescribed above in respect of commitments for which a new issue letter is available are less than the margin rates required by the issuer of such letter, the higher rates required by the issuer must be applied.

c) Where an approved participant has a commitment pursuant to an underwriting agreement or banking group agreement to purchase a new issue of securities or a secondary issue of securities and the approved participant has determined through obtaining appropriate documentation:

I) that the allocation between retail and exempt purchasers has been finalized;

II) that expressions of interest received from the entire allotment to exempt purchasers have been verbally affirmed but not yet ticketed;

III) that there is unlikely to be a significant renege rate on the expressions of interest received from exempt purchasers; and

IV) that the approved participant is not significantly leveraging its underwriting activities through the use of the capital requirement reduction provided on that portion of the underwriting commitment where expressions of interest have been received from exempt purchasers.

The following margin rates must be applied for the portion of the commitment allocated to exempt purchasers:

i) without new issue letter:

A) in the case where the underwriting agreement includes neither a market out clause nor a disaster out clause:

From the date that the expressions of interest received from the entire allotment to exempt purchasers have been verbally affirmed but not yet ticketed until the date the sales are contracted:

20% of normal new issue margin is required, provided the current market value of the commitment is at or above 90% of new issue value (90% x issue price x number of shares);

40% of normal new issue margin is required, provided the current market value of the commitment is at or above 80% of new issue value (80% x issue price x number of shares) but less than 90% of new issue value;

otherwise, normal new issue margin is required;

B) in the case where the underwriting agreement includes a disaster out clause:

from the date that the expressions of interest received from the entire allotment to exempt purchasers have been verbally affirmed but not yet ticketed until the date the sales are contracted:

20% of normal new issue margin is required, provided the current market value of the commitment is at or above 90% of new issue value (90% x issue price x number of shares);

40% of normal new issue margin is required, provided the current market value of the commitment is at or above 80% of new issue value (80% x issue price x number of shares) but less than 90% of new issue value;

otherwise normal new issue margin is required;

C) in the case where the underwriting agreement includes a market out clause:

margin required is the one prescribed in paragraph b) i) C) above;

D) in the case where the underwriting agreement includes a disaster out clause and a market out clause:

margin required is the one prescribed in paragraph b) i) D) above.

ii) with new issue letter:

A) in the case where the underwriting agreement includes neither a disaster out clause nor a market out clause:

margin required is the one prescribed in paragraph b) ii) A) above;

B) in the case where the underwriting agreement includes a disaster out clause:

margin required is the one prescribed in paragraph b) ii) B) above;

C) in the case where the underwriting agreement includes a market out clause:

margin required is the one prescribed in paragraph b) ii) C) above;

D) in the case where the underwriting agreement includes a disaster out clause and a market out clause:

margin required is the one prescribed in paragraph b) ii) D) above.

d) Concentration

Where the normal new issue margin required is reduced by a new issue letter or by a qualifying expressions of interest received from exempt purchasers that have been verbally affirmed but not yet contracted, the approved participant must determine if there is any concentration by doing the calculations prescribed in the Joint Regulatory Financial Questionnaire and Report.

e) In determining the amount of an approved participant's commitment pursuant to an underwriting agreement or banking group agreement for the purposes of paragraphs b), c) and d) above, receivables from members of the banking or selling groups in respect of their obligations to take down a portion of a new issue of securities may be deducted from the liability of the approved participant to the issuer.

PART II
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

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(Firm Name)

MARGIN FOR CONCENTRATION IN UNDERWRITING COMMITMENTS

INDIVIDUAL CONCENTRATION:

Description *(see note 3)*	Market Value	Normal Margin	40% of Net allowable assets	Excess	Margin Already Provided *(see note 2)*	Concentration Margin

1. SUBTOTAL .... $_ _ _ _ _ _ _

OVERALL CONCENTRATION:

Description *(see note 5)*	Total Market Value	Normal Margin	100% of Net allowable assets	Excess	Margin Already Provided *(see note 4)*	Concentration Margin

2. $_ _ _ _ _ _ _

3. TOTAL CONCENTRATION MARGIN *[lines 1 plus 2]*.. $==========

B-8

NOTES:

1. This schedule need only be completed for underwriting commitments requiring concentration margin.
2. INDIVIDUAL COMMITMENT CONCENTRATION:
   Where the normal margin required on any one commitment is reduced due to either:
   a) the use of a new issue letter; or
   b) qualifying expressions of interest received from exempt purchasers that have been verbally affirmed but not yet contracted (the margin reduction is only permitted once the final allocation has been made to the exempt purchasers and the entire allotment to exempt purchasers has been verbally confirmed);

   and the normal margin on the commitment exceeds 40% of the member firm's net allowable assets, such excess shall be provided as margin. The amount to be added may be reduced by the amount of margin already provided on the individual underwriting position to which such excess relates.
3. Report details by individual commitments.
4. OVERALL COMMITMENT CONCENTRATION:
   Where the normal margin required on some or all commitments is reduced due to either:
   a) the use of a new issue letter; or
   b) qualifying expression of interest received from exempt purchasers that have been verbally affirmed but not yet contracted (the margin reduction is only permitted once the final allocation has been made to the exempt purchasers and the entire allotment to exempt purchasers has been verbally confirmed);

   and the aggregate normal margin on these commitments exceeds 100% of the member firm's net allowable assets, such excess shall be provided as margin. The amount to be added may be reduced by the amount of margin already provided on such commitments and by the amount, if any, already provided for individual concentration.
5. It is not necessary to report details of individual commitments. Report the aggregate totals.